

Message Text

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CONFIDENTIAL SECTION1 OF 2 BUENOS AIRES 8289

PASS TREASURY, COMMERCE

GENEVA FOR MTN

E. O. 11652: GDS
TAGS: ECRP, EGEN, EFIN, AR
SUBJECT: ARGENTINE ECONOMY AT END 1975

REF: BUENOS AIRES A-230, NOV. 7, 1975

1. SUMMARY: PURPOSE THIS MESSAGE PROVIDE WASHINGTON
OVERVIEW ECONOMIC SITUATION END 1975, UPDATING SEMI-ANNUAL
TRENDS REPORT AND PROVIDING SOME NEW DATA. CABLE ALSO
GIVES ASSESSMENT GOA ECONOMIC POLICIES AND OUTLOOK FOR
1976. 1975 WORSE ECONOMIC YEAR IN RECENT HISTORY FOR
ARGENTINA. RELIABLE PRIVATE SOURCES ESTIMATE GROSS
DOMESTIC PRODUCT GROWTH AT APPROXIMATELY -1 PERCENT. ANNUAL
INCREASE CONSUMER PRICE INDEX (DEC.-DEC.) WILL BE APPROX-
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MATELY 330 PERCENT, HIGHER THAN ANTICIPATED. IMMEDIATE EXTERNAL
FINANCIAL CRISIS SURMOUNTED, BUT SHORT-TERM DEBT REFINANCING
AND ROLL OVER WILL ADD TO 1976 DEBT BURDEN. IN POLICY
AREA, GOA SEEKING MAKE BEST OF DIFFICULT SITUATION WITH

SOME POSITIVE ACCOMPLISHMENTS, PARTICULARLY IN EXTERNAL AREA. HOWEVER, PROGRESS TOWARD RESOLVING SALARY AND FISCAL PROBLEMS HAS BEEN LIMITED. 1976 ECONOMIC OUTLOOK IS FOR CONTINUED STAGNATIONN WITH INFLATION IN 150-200 PERCENT RANGE AT BEST. IT COULD EASILY BE MUCH HIGHER. 1976 BALANCE OF PAYMENTS PROSPECT IMPROVED, BUT NUMEROUS UNCERTAINTIES REMAIN. END SUMMARY.

2. GROSS DOMESTIC PRODUCT

LATEST OFFICIAL ESTIMATE REAL 1975 GDP GROWTH IS 2.4 PERCENT. HOWEVER, RELIABLE PRIVATE SOURCES PUT FIGURE AT ABOUT -1 PERCENT. CONSUMPTION, WHICH AT RECORD LEVELS EARLY IN YEAR, DECLINED APPRECIABLY IN SECOND HALF 1975 AS RESULT REAL INCOME REDUCTIONS. INVESTMENT EXTREMELY WEAK IN VIRTUALLY ALL AREAS. ACCORDING ONE PRIVATE ESTIMATE, REAL GROSS FIXED INVESTMENT FOR 1975 APPROXIMATELY -10 PERCENT. SHARPEST DECLINE IN PRIVATE EQUIPMENT AND MACHINERY INVESTMENT FOLLOWING TREND OF LAST SEVERAL YEARS. CONSTRUCTION, BOTH PUBLIC AND PRIVATE, ALSO DOWN IN 75 FOLLOWING SUBSTANTIAL 1974 INCREASE.

3. INDUSTRY

PRIVATE ESTIMATES SHOW INDUSTRIAL OUTPUT AT -2.5 PERCENT FOR 1975, FIRST NEGATIVE INDUSTRIAL GROWTH FIGURE SINCE 1963. INDUSTRY SUFFERED MAJOR BLOW WITH IMPORT SHUTOFF IN EARLY 1975, AND FURTHER BLOW WITH WAGE-PRICE SPIRAL INITIATED JUNE. PRIVATE DATA SHOW ESPECIALLY SHARP ANNUAL PRODUCTION DECLINES FOR KEY INDUSTRIES SUCH AS AUTOMOTIVE, -14 PERCENT, AND TRACTOR, -25 PERCENT. PETROLEUM OUTPUT DOWN 5.4 PERCENT IN 1975, THIRD STRAIGHT YEAR OF DECLINE. IN FOURTH QUARTER, THERE WAS SOME INCREASE IN DEMAND AND OUTPUT IN SOME INDUSTRIAL SECTORS BUT NO GENERAL UPWARD TREND EVIDENT.

4. MAJOR PROBLEMS WHICH COMPANIES NOW FACE INCLUDE

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CONTINUED LABOR INSTABILITY AND AGITATION, CONTINED WEAK DEMAND IN MANY SECTORS AND UNCERTAINTIES OF SOARING INFLATION. ACCORDING ONE PRIVATE ESTIMATE, AVERAGE UNUTILIZED CAPACITY IN INDUSTRIAL SECTOR NOW RUNNING AT APPROXIMATELY 23 PERCENT. STOCKS OF FINISHED MATERIALS AT HIGH LEVELS, WHILE RAW MATERIAL AND INTERMEDIATE STOCKS SEVERELY DEPLETED. PRIVATE SOURCES BELIEVE UNEMPLOYMENT LEVEL HAS NOT DROPPED BELOW AUGUST HIGH OF 6 PERCENT AND COULD BE RISING.

5. INFLATION

ANNUAL INCREASE IN CONSUMER PRICE INDEX, (CPI) FOR 1975

WILL BE APPROXIMATELY 330 PERCENT. WHOLESALE PRICE INDEX WILL INCREASE APPROXIMATELY 370 PERCENT AND CONSTRUCTION INDEX APPROXIMATELY 350 PERCENT. THERE IS GENERAL CONSENSUS THAT REAL INFLATION RATES EVEN WORSE BECAUSE A) OFFICIAL INDICES UNDERSTATE ACTUAL PRICE INCREASES IN MARKET, AND, B) PRICE INCREASES GREATER FOR MAJORITY OF ITEMS NOT INCLUDED IN OFFICIAL INDICES. GOA OBJECTIVE REDUCING INFLATION TO BELOW 100 PERCENT IN 1976 GREATLY EXAGGERATED IN OUR VIEW. AT BEST, BELIEVE INFLATION MIGHT BE REDUCED TO AROUND 150-200 PERCENT NEXT YEAR. IF GOA NOT ABLE EXERT BETTER CONTROL OVER SALARIES AND PUBLIC FINANCE, 1976 INFLATION COULD WELL EXCEED 1975 LEVEL. FACTORS ADDING TO UPWARD PRESSURE ON PRICES INCLUDE; SUBSTANTIAL PUBLIC SECTOR CURRENT EXPENDITURES ANTICIPATED IN DECEMBER (AGUINALDO, RETROACTIVE WAGES, ETC.) NEW WAGE INCREASES EXPECTED IN EARLY JANUARY, CONTINUED LOW PRODUCTION AND PRODUCTIVITY, AND DISARRAY IN STRUCTURE OF RELATIVE PRICES (I.E. CONTINUED NEED FOR GOA CONTROLLED PRICES TO "CATCH UP" WITH OTHERS.)

6. WAGES AND INCOME

SALARY ISSUE REMAINS MOST DIFFICULT ONE FOR GOA. LARGE NOMINAL WAGE ADJUSTMENTS IN JUNE NEARLY CAPSIZED ECONOMY. IN NOVEMBER, GOA ABLE HOLD LINE WITH MORE REASONABLE \$1,500 PESO HIKE (ABOUT 20 PERCENT INCREASE ON AVERAGE MONTHLY SALARY OF \$7,500 PESOS). NEVERTHELESS, STRONGER UNIONS IN PRIVATE SECTOR AND SEVERAL STATE ENTITIES OBTAINED WAGE INCREASES, OR BENEFITS, EXCEEDING OFFICIAL LEVEL.

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NEXT WAGE INCREASES EXPECTED EARLY JANUARY 1976. THEY ARE AGAIN LIKELY REPRESENT SIGNIFICANT TEST FOR GOA AND FOR ECONOMY MINISTER CAFIERO'S EFFORTS GRADUALLY RESTORE ECONOMIC STABILITY.

7. IN OUR VIEW, REAL INCOME REDUCTIONS HAVE BEEN VERY SUBSTANTIAL THIS YEAR, PARTICULARLY DURING RECENT MONTHS. UNFORTUNATELY, ISSUE DIFFICULT PROVE ONE WAY OR OTHER IN VIEW DISTORTIONS OFFICIAL PRICE AND WAGE DATA. MAJOR INCOME FLOWS DURING YEAR PROBABLY FROM AGRICULTURE TO INDUSTRY, FROM THOSE ABIDING BY GOA CONTROLS TO THOSE EVADING THEM, AND FROM WEAKER TO STRONGER UNIONS. ALSO, AND THIS POINT SELDOM NOTED, INCOME DIVERTED FROM FUTURE TO PRESENT GENERATION VIA GOVERNMENT'S EMPHASIS ON CONSUMPTION AT EXPENSE INVESTMENT. WHILE POLITICALLY POPULAR, THIS POLICY HAS SIGNIFICANT ECONOMIC COST. A FEW GENERAL LABOR TRENDS WORTH NOTING INCLUDE INCREASING PARTICIPATION CGT LEADERS IN PUBLIC OFFICE (STATE ENTITIES, PROVINCIAL GOVERNMENT, ETC.), LABOR PRESSURE FOR GREATER PARTICIPATION IN MANAGEMENT, AND CONTINUED LEFTIST INFILTRATION OF CGT.

8. FISCAL

AS WASHINGTON AWARE, GOA FISCAL RESULTS THIS YEAR WILL BE EXTREMELY POOR. INITIAL BUDGET DEFICIT OF 18 BILLION PESOS TOTALLY UNREALISTIC. MOST RECENT REVISED BUDGET ESTIMATES DEFICIT AT 164 BILLION PESOS, 9 TIMES INITIAL FIGURE. SITUATION OF PUBLIC SECTOR FINANCE EVEN WORSE THAN INDICATED BY DEFICIT FIGURES BECAUSE A) ACCRUED BUT UNPAID EXPENDITURES HAVE INCREASED SIGNIFICANTLY DURING YEAR, AND B) BANKING SYSTEM HAS SIGNIFICANTLY EXPANDED FINANCING TO BOTH PUBLIC SECTOR AND CONTRACTORS WHICH PUBLIC SECTOR HASN'T PAID.

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